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TAGS: EMIN ECON AO
SUBJECT: LUANDA'S DIAMOND FACTORY

¶1. (SBU) Summary: The Lev Leviev Diamond Corporation's (LLD) diamond cutting and polishing factory in Luanda is only operating at 20 percent of its designed capacity thanks to less than promised supplies of rough diamonds. Low throughput contributes to a high (USD 100 per carat) production cost, and leaves the factory barely covering opeating costs. This is an interesting case study for those depending on the GRA to provide raw materials for any potential investment. End Summary.

¶2. (SBU) Angola Polishing Diamonds (APD) opened in 2005 as a USD 10 million joint venture, with 48 percent owned by SODIAM, the diamond marketing arm of Angola's state diamond monopoly, Endiama; 47 percent by the Lev Leviev Diamond Corporation (LLD); and 5 percent by Progem, an Angolan consortium whose owners remain anonymous.

A Fraction of Capacity

¶3. (SBU) The Talatona factory's 320 employees and 1,000 machines could produce 1,000 carats of gemstones per day according to Thomas Teichmann, Director General for the Leviev Group of Companies in Angola. However, the factory is only receiving 20 percent of the number of stones it needs to operate at full capacity. Teichmann said that Leviev received promises of adequate supplies when he committed to build the factory, adding that it is also in SODIAM's interest to give the factory an adequate supply. However, he observed that contracts in Angola are not clear, if they are honored at all. Current production covers operating costs, he said, but has not touched the initial investment. Teichmann expects supplies to increase as APD gets a larger share of mine production and as Angola's overall production increases in coming years.

From Fathers to Sons to New Hands

¶4. (SBU) Diamond cutting and polishing skills traditionally pass from father to son. To overcome Angola's lack of a diamond cutting tradition, APD first trained 45 Angolan employees in Namibia and South Africa and then brought 30 of its skilled Israeli and Armenian employees to provide expert advice when the factory opened. According to factory officials, production costs in Luanda run USD 100 per carat, versus USD 10-13 in India, below USD 30 in Antwerp and Tel Aviv. New hires earn USD 400 per month; the highest-paid Angolan employee, the factory supervisor, earns USD 1,000 per month. (Note: the minimum wage in Angola is now USD 80 per month. End note.) The factory maintains extremely tight security over stock.

Comment: Supply and Demand

¶5. (SBU) The high cost per carat of cutting stones in Luanda is mainly a function of the company's low utilization of high-priced fixed assets. The per carat cost would come down if more stones were processed at the polishing factory. When the joint venture was created, Endiama promised a strong supply of diamonds for local production. In spite of promises made at high levels of the GRA (and the fact that SODIAM is the majority partner), that supply has yet to materialize. This is an interesting case study for those whose investments depend on supply of raw materials from GRA-owned companies.
FERNANDEZ